NORTHERN AND CENTRAL GAS COMPANY LIMITED

An address by
EDMUND C. BOVEY, President
Northern and Central Gas
Company Limited
to the
Toronto Society of Financial Analysts
December 15, 1965

The address contained in this booklet was recently presented to the Toronto Society of Financial Analysts by Mr. E. C. Bovey.

As it describes recent developments in the Company, we are sending it with the hope that you will find it of interest.

NORTHERN AND CENTRAL
GAS COMPANY LIMITED

ON DECEMBER 10, 1965, the name of Northern Ontario Natural Gas Company Limited was officially changed to Northern and Central Gas Company Limited. The reasons for this change may be found in a study of the four following topics:

a) An outline of the territory served by Northern and Central Gas Company Limited.

b) A review of the individual companies that comprise Northern and Central Gas Company Limited.

c) An explanation of the intended organization and operation of Northern and Central Gas Company Limited.

d) Some reasons why the combination of companies that make up Northern and Central Gas Company Limited should provide an exceptionally strong growth situation.

The territory served by the company

The enclosed map shows the extent of our service area, emphasizing the large segment of Central Canada that it includes. A few statistics pertaining to it are:

The mileage from Cornwall, our easternmost market and almost on the Quebec border, to Winnipeg, on the West, is in excess of 1,600 miles. The service area starts at Cornwall, follows the Seaway and Lake Ontario west to Port Hope, just 65 miles east of Toronto, then begins again 70 miles north of Toronto at Orillia. From here, the service area goes continuously northwards, more than 400 miles, to Cochrane. On the way, service laterals tie in the expanding and busy Sudbury Basin and the recent dramatic developments of Texas Gulf Sulphur at Timmins. By this time next year, a lateral to the east from Earlton will have tied in the Rouyn-Noranda complex in northwestern Quebec.

From Cochrane, the line swings west again through Kapuskasing, Hearst and Geraldton, then slightly south to the north shore of Lake Superior at Nipigon and Red Rock, and then on west to the Lakehead. In the 450 miles between the Lakehead and Winnipeg, such major pulp and paper centres as Dryden and Kenora are served.

Within a relatively few weeks, it is our intention to commence construction of a lateral south from near Ignace to serve the Caland iron ore pelletizing operation and the Township of Atikokan. The line then continues from Kenora to the Greater Winni-

peg area, including Selkirk.

This service area, as noted, extends more than 1,600 miles along the Trans-Canada Pipe Lines route from Western Canada to Montreal. On an area basis, it comprises 100,000 square miles, with a population of 1,200,000, of which 250,000 are estimated to be potential gas customers. Northern and Central is now serving 145,000 of these.

The area abounds in natural resources and is one of the last major raw material frontiers in North America that is located, for all practical purposes, within only an overnight rail haul of any of the major manufacturing centres of the Midwestern United States, the Great Lakes Region, the Eastern United States, and Eastern Canada.

Capital investment, either just completed, under way, or to be commenced within the next 12 months, in this large section of Canada, stretching from Cornwall to Winnipeg, is in excess of $1 billion.

Present capital expansion in the St. Lawrence Seaway section, served by Lakeland Natural Gas Company, totals an impressive $150 million, made up mainly of investment in the chemical, mining and food processing industries.

Never in the short but fascinating history of Northern and Northwestern Ontario has such general and comprehensive expansion activity taken place, nor, ever before, has so much capital investment been made in the area at one time. Presently, there is more than $750 million in development projects that have either just been completed, are under way, or are about to be started in Northern and Northwestern Ontario.

When this tremendous amount of new capital is equated with existing capital investment, we believe that no other area in North America can show the same percentage of increase. Northern Ontario investment can be briefly placed in three categories:

Mining (iron ore, steel, nickel, etc.)....$475 million
Pulp, Paper and Forest Products......$260 million
Commercial and Industrial, secondary
industry and new housing..........$22.5 million

These developments involve such names as Caland Ore, Great Lakes Paper, Domtar, Abitibi, Spruce Falls Power & Paper, Texas Gulf Sulphur, Jones & Laughlin, Dofasco, Falconbridge, International Nickel, Algoma Steel, and many others.

Finally, the Greater Winnipeg market has exceptionally good growth prospects. In 1954, just eleven years ago, Winnipeg's population was 390,000. Today, it is Canada's fourth largest city with a population of 510,000. The projection to 1975 shows a probable 650,000 figure, or an increase of more than 27% in the next ten years.

Both economically and geographically, Winnipeg represents the mean, or norm, in Canadian statistics, most of which are close to the national average. The average Winnipeg annual income is $4,447 against a Canadian average of $4,699. The exception to this is in monetary matters, where Winnipeg remains the financial centre for much of the area between Toronto and Vancouver. For example, Winnipeg's bank clearings are higher than those of Vancouver.

It is expected that, during the next ten years, a major factor in Winnipeg's development will be the continuing expansion of light and secondary manufacturing industry, particularly in metal products and plastics. However, we suggest that it will not be too long before Winnipeg obtains additional heavy basic industries. It already has a major cement producing complex, and the chemical industry has been studying the Winnipeg area, having in mind the economic price of natural gas in the area as feed stock for major production of agricultural chemicals. These products would be intended not only for Western Canadian markets, but also for export into the rich and growing Midwestern United States agricultural areas.

Since the war, Winnipeg has become a major Canadian needle trade centre, with almost 6,000 people employed and a value of production last year in excess of $49 million. Winnipeg will undoubtedly continue to grow as an important distribution centre. Food processing will remain a major primary industry, with meat packing and milling the most important segments. These industries must grow as national and world markets continue to grow.

Recent additions to food processing facilities in the area are the new Burns Foods plant at St. Boniface, and the potato processing plant of the Carnation Company at Carberry, which is now processing 15 million pounds of potatoes per year.

Winnipeg had its problems with the disastrous flood of 1950, and a slight recurrence last year, but

it is expected that this problem will be permanently solved when the $63 million Red River Floodway project is completed next year.

The individual companies that comprise Northern and Central Gas Company Limited

Earlier this year, NONG made an offer to purchase the outstanding shares of Lakeland Natural Gas. This offer was successful to the extent that holders of some 98% of the shares of that company accepted the offer.

Lakeland serves a concentrated industrial and residential market which extends from Cornwall to Port Hope, strategically located between the two largest markets in Canada—Montreal and Toronto. Lakeland has 11,000 customers in this area, and the potential for growth is most attractive. Its acquisition made it possible for Northern to expand into a growing market, with considerable established industrial, commercial and residential loads.

Lakeland was a profitable operation but, due to its smaller size, its administrative costs were proportionately higher than Northern's. It was realized that important economies could be obtained by a consolidated operation. However, probably the most important consideration was the greater flexibility which a consolidated operation permits in the balancing of load factor.

Gas is bought from our supplier, Trans-Canada Pipe Lines Limited, in specified quantities, and at a specified load factor, throughout the year. The higher the load factor, the more favourable the price. But all gas is purchased on a take-or-pay basis—that is—use it or pay for it anyway.

Obviously, then, being able to move unrequired "valley" gas from Northern's Muskoka area to industry in the Lakeland area provides important sources of additional revenue. It is expected that it will be possible to substantially increase sales of industrial gas in the Lakeland area, because of being able to move gas between Northern and Lakeland.

The basic Northern Ontario Natural Gas system includes Twin City Gas, which serves the major part of the Western end of the system. Some interesting new developments throughout the area will be reflected in important increased sales within a year.

Earlier this year, permission was received from the National Energy Board for a Northern subsidiary,

Champion Pipe Line Corporation Limited, to construct a 60-mile transmission line from Earlton, north of New Liskeard, to the Rouyn-Noranda area of Northwestern Quebec, so that another subsidiary, Le Gaz Provincial du Nord de Québec Ltée, could provide service to the 32,000 residents of the area and to the major industry located there. Le Gaz Provincial du Nord de Québec holds distribution franchises with the municipalities of Rouyn and Noranda and it is expected that these facilities will be completed, and in service, before September 1, 1966.

While it is not contemplated that Noranda Mines Ltd. will be served with major quantities of industrial gas at the outset, it is expected that, once gas is available, opportunities will be developed for an increasing sale over the years to this industry. Further west, and apart from substantially increased gas sales that are already being placed under contract as a result of the capital investment previously outlined, the company will construct, in 1966, a 55-mile lateral to serve the Steep Rock Iron range at Atikokan. Caland Ore Company Limited has constructed a large pelletizing plant near Atikokan, and is presently using propane, but has contracted to use natural gas when it becomes available in the summer of 1966.

While Steep Rock Iron Mines have not yet concluded their arrangements with Algoma Steel Co., upon which depends the construction of yet another pelletizing plant in the area, it is confidently expected that an announcement will be made in this regard shortly. If this comes about, there will be two major production units at Atikokan, with a potential natural gas usage of up to 20 million cubic feet a day.

Greater Winnipeg Gas Company has achieved remarkable penetration of its residential and small commercial market, as well as the limited number of large industrial customers in the area. This has been obtained by diligent sales effort and the very competitive rate structure which is inherent in its operation. However, this type of market acquisition has produced problems in peak shaving and further penetration of the heating market only aggravates load factor problems.

To assist this situation, Greater Winnipeg has installed a 5,000,000 gallon refrigerated propane storage unit. Being favourably situated at the end of the Pacific Petroleum LPG transmission line from

Empress to Winnipeg, it has been able to do an excellent job of peak shaving cold winter day requirements with propane added to its natural gas supply.

However, as the heating market is further penetrated, further peak shaving facilities will be required, and the company has considered development of liquefied natural gas storage. Capital costs for such a project could be anywhere from $3.5 million to $6 million.

Discussions are now being held between Trans-Canada Pipe Lines Limited and Northern and Central Gas Company with the objective of working out an arrangement that would enable the Winnipeg valley gas to be transferred east to the large industrial markets of Northwestern and Northern Ontario. Such gas interchange would defer the need for additional peak shaving capacity for some years and would have two other most important consequences.

Firstly, in all probability, the load factor at which the Winnipeg system is now purchasing gas from Trans-Canada Pipe Lines, that is 65%, could be upgraded to 75% or better, resulting in a major reduction in the overall cost of gas purchased. Secondly, as indicated, valley gas not required in the Winnipeg market could be made available to the growing resource industries in Northwestern and Northern Ontario.

Our projections indicate that, within the next ten years, iron ore pelletization may well exceed paper mills and smelting as the major industrial load in this area. Natural gas is a preferred fuel for this process and, if available in quantity and at economic prices, could well assist in speeding the development of pelletization as a major Northern industry.

The same principle, of course, applies to other new primary industry for the area — and to expansion in the existing smelters and paper mills, which is continually taking place. This improved load factor not only will be reflected in lower cost gas, from the company's point of view, but it will also assist in making available increasingly competitive rates for gas to industry and a stable, basic rate for residential service.

Another very important consideration with respect to the acquisition of the Greater Winnipeg system is the fact that Winnipeg represents a large number of

residential and small commercial customers in a concentrated area. It is deficient, however, in sufficient large primary industry to provide a balanced load factor operation. But the residential and small commercial market represents the highest return area of the gas distribution industry.

The Northern system, on the other hand, has fewer customers—some 54,000 spread over 1,100 miles of Northern Ontario—but has a very large industrial market for both firm and interruptible gas. The consolidation of these complementary operations has direct advantages for both and the joint effect of Winnipeg-Northern-Lakeland amalgamation represents, as mentioned, an exceptionally interesting growth potential.

Company organization

How is it intended to organize the new company that has emerged this year? First of all, it will be an active operating company. In other words, Northern and Central Gas Company Limited will not be, by any interpretation, a holding company.

The management structure of the new company has set up a strong line organization which, of course, must be held accountable for results at all levels and which flows directly from the board of directors through the chief executive officers to the heads of three companies, namely Lakeland, Northern and Winnipeg. They, in turn, will be held completely accountable for the performance of their individual companies.

At the same time, they will be able to draw on an experienced and capable staff organization which will be responsible for specific functions, such as legal, finance, engineering, operation, marketing, gas supply, etc. The staff organization, and the heads of the individual companies or divisions, have been drawn completely from the three companies concerned. Another attractive consideration, with regard to the Winnipeg acquisition, was the fact that it also included the acquisition of some exceptionally good men.

Another important feature is that the individual company indentities will not be changed. Northern has operated very successfully, with its almost wholly-owned subsidiary, Twin City Gas Company, since its inception. There is no doubt that the local identity of Twin City Gas Company is an important

asset. In a similar manner, customers in the Lakeland area will continue to think of their gas company as Lakeland.

While Northern Ontario Natural Gas Company loses its corporate status, because of the name change, we intend to continue the well-known "New glow in the Northern lights" insignia, and the name Northern Ontario Natural Gas. Greater Winnipeg Gas Company, of course, has a strong local identity and this will not be changed.

This is the present position of Northern and Central Gas Company Limited, now probably the third largest distributor in Canada. Quick statistics on a consolidated basis for Northern and Central show the following:

Customers	145,000
Total gross assets	$140,000,000
Total annual sales	78 billion cubic ft.
Total annual sales (in dollars)	$51,000,000

The future outlook

It is too early to state how the company is doing this year, as year-end figures are not yet available and, of course, it is not too many weeks before the 1965 annual report will be published. However, the weather this year has been extremely favourable for gas sales in all of our territories. On this basis alone, we are looking forward to good results for the year 1965.

In addition, customer acquisition in all areas has been on, or ahead of, target—and capital expansion and operating costs are in line with budgets.

Looking briefly to the future, Northern and Central believes that the new company, with its strong individual components, its dynamic and growing service area, its potential for consolidation and economic operation—not only for gas supply but for all functions—and its asset of skilled, knowledgeable gas people, represents an exciting potential for growth that should be achieved in the years ahead.

Some specific idea of this potential might be illustrated by two projections. Five years from now, it is expected that Northern and Central Gas Company Limited will have increased its total of customers from 145,000 to over 200,000, and its total purchase of gas requirements from 275 million cubic feet a day to 435 million cubic feet a day.

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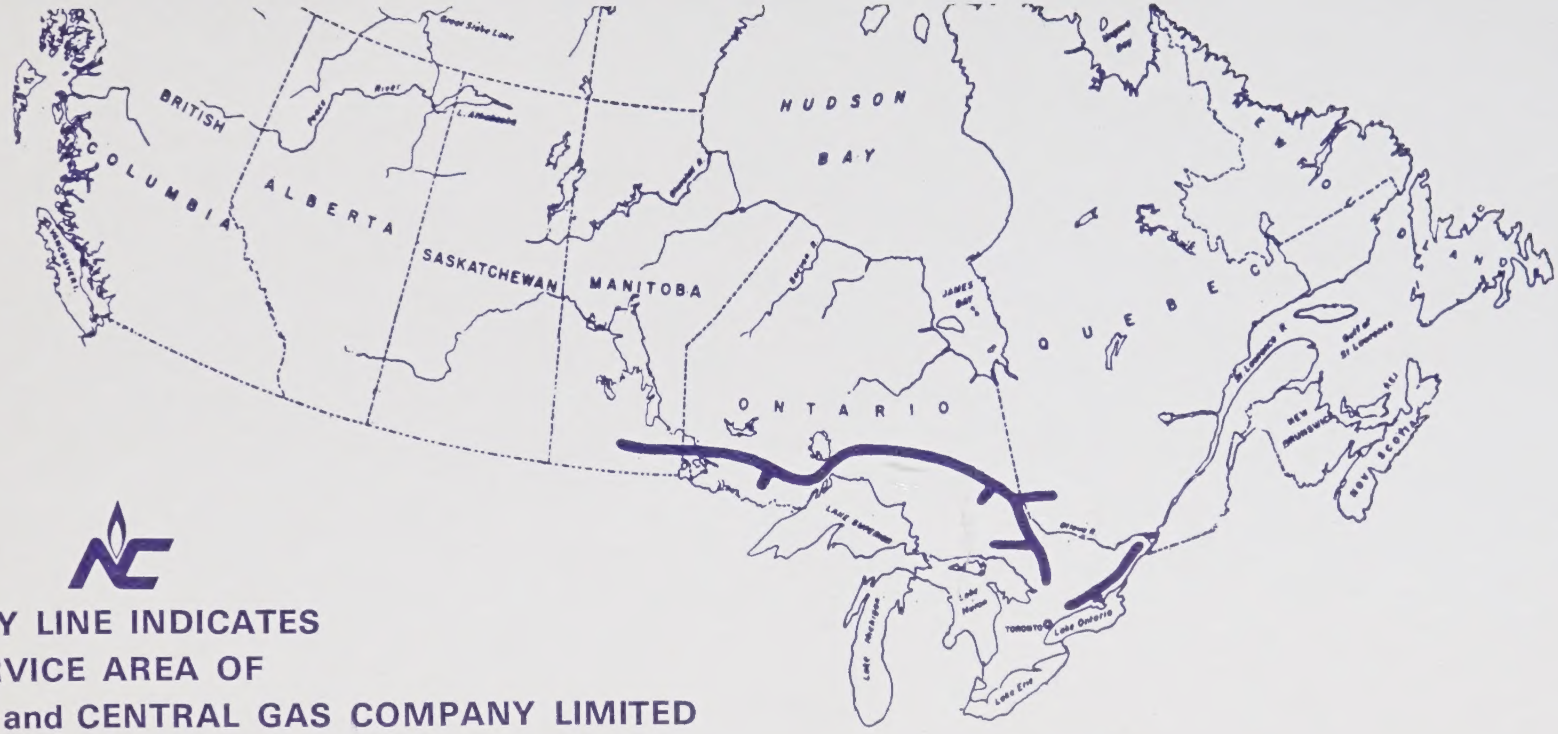

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